

Message Text

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ACTION XMB-04

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R 271250Z JUL 78
FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC 1110
INFO AMEMBASSY BRUSSELS
AMCONSUL BUKAVU
AMCONSUL LUOUMBASHI

LIMITED OFFICIAL USE SECTION 1 OF 3 KINSHASA 8161

E.O. 11652: N/A
TAGS: EFIN CG
SUBJECT: INGA-SHABA TRANSMISSION

REF: STATE 174848

BEGIN SUMMARY: GOZ MUST SOON DECIDE ITS POLICY REGARDING FUTURE
OF INGA-SHABA TRANSMISSION LINE. CIS AND SNEL DIRECTOR FAVOR
FINISHING LINE IN SHORTEST POSSIBLE TIME. HOWEVER, SUCH COURSE
OF ACTION WOULD INVOLVE HEAVY EXPENDITURES OF SCARCE FOREIGN
EXCHANGE DURING NEXT SIX MONTHS WHICH CAN PROBABLY ONLY BE MADE
BY REDUCED IMPORTS OF FOOD, SPARE PARTS, AND RAW MATERIALS WHICH
ARE ALREADY AT CRITICALLY LOW LEVELS. GOZ MUST DETERMINE ITS OWN
PRIORITIES BUT WE ARE ENDEAVORING TO SEE THAT SENIOR
GOZ OFFICIALS FOCUS ON PROBLEM.
END SUMMARY

1. USING INFORMATION FURNISHED BY CIS, SNELK DIRECTOR JACOBS
HAS WRITTEN GOZ MINISTER OF ENERGY STATING THAT GOZ EXECUTIVE
COUNCIL SHOULD CHOOSE AS TO WHICH OF THREE POSSIBLE ALTERNATIVES
IT WISHES TO PURSUE REGARDING INGA-SHABA TRANSMISSION LINE.
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ALTERNATIVES PRESENTED ARE AS FOLLOWS:

- A. ALTERNATIVE 1 - STOP ALL CONSTRUCTION AND ENTER INTO CARE-
TAKER STATUS FOR MAINTENANCE OF EQUIPMENT ALREADY IN COUNTRY.
- B. ALTERNATIVE 2 - CONTINUE PROJECT ACTIVITIES AT THE CURRENT
RHYTHM OR REDUCED RHYTHM IN CERTAIN SELECTED AREAS UP TO NEXT
NOVEMBER WHEN CURRENT FUND (8,000,000 US DOLLARS) WILL BE DEPLETED.

THEN REDUCE ACTIVITIES DOWN TO CARETAKER STATUS UNTIL JUNE 1979, WHEN

LOAN AGREEMENTS WITH EXIMBANK MAY PROBABLY BE PUT INTO PLACE.

C. ALTERNATIVE 3 - TAKE ALL NECESSARY STEPS SO AS TO COMPLETE
PROJECT TOWARDS END OF 1980.

2. JACOBS RECOMMENDED THAT GOZ CHOOSE ALTERNATIVE 3 AS IT WOULD BE
CHEAPEST SOLUTION AND PROVIDED POWER TO SHABA AT EARLIEST POSSIBLE DATE.

3. CIS DIRECTOR ADAMS HAS RECENTLY WRITTEN JACOBS STATING IN EFFECT
THAT SINCE GOZ HAS NOT RESPONDED TO JACOBS' LETTER NOR HAS IT TAKEN
NECESSARY STEPS TO IMPLEMENT ALTERNATIVE 3, CIS WILL BE FORCED TO
PROCEED TO IMPLEMENT ALTERNATIVE PLAN 2.

4. JACOBS TOLD ADAMS THAT HE STILL BELIEVES ALTERNATIVE 3 IS PREFERABLE

AND THAT HE WILL MAKE EVERY EFFORT TO PERSUADE GOZ. HE REQUESTED THAT
ADAMS DELAY IMPLEMENTING ALTERNATIVE 2 AS LONG AS FEASIBLE.

5. ADAMS TOLD US THAT HE CAN CONTINUE AT PRESENT RATE AND
DELAY IMPLEMENTING ALTERNATIVE 2 FOR SEVERAL MORE WEEKS. IF GOZ
HAS NOT TAKEN ACTION BEFORE SUCH TIME HE WILL BE FORCED TO PROCEED
WITH IMPLEMENTATION OF ALTERNATIVE 2.

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6. COMMENT: WE AGREE WITH JACOBS THAT ALTERNATIVE 3 IS MOST
DESIRABLE SOLUTION, BUT IT WILL INVOLVE A HEAVY COMMITMENT OF
GOZ'S SCARCE FOREIGN EXCHANGE. THE GOZ MUST DECIDE ITS PRIORITIES
FOR ITSELF. ALL FOREIGN EXCHANGE EXPENDITURES FOR INGA-SHABA WILL
MEAN THAT MUCH LESS AVAILABLE FOR CRITICALLY NEEDED IMPORTS OF
FOOD, SPARE PARTS, AND RAW MATERIALS. THE GOZ MAY WELL DECIDE THAT
ALTHOUGH DESIRABLE, IT MUST, FOR POLITICAL AND OTHER REASONS, OPT
FOR ALTERNATIVE 2 OR 1. WE ARE ENDEAVORING TO SEE THAT GOZ SENIOR
OFFICIALS FOCUS ON THIS PROBLEM AND CHOOSE WHICHEVER ALTERNATIVE THEY
CONSIDER TO BE IN THEIR BEST INTERESTS.

AMBASSADOR DISCUSSED MATTER JULY 27 WITH CENTRAL BANK
GOVERNOR BOFOSSA, WHO MADE CLEAR HE WAS AWARE OF
DEVELOPMENTS INCULding EXIM LETTER TO
AMB. KASONGO.

7. CONTENTS OF JACOBS-GOZ LETTER FOLLOW:

QUOTE: JUNE 28,1978

DEAR CITIZEN STATE COMMISSIONER:

ON APRIL 18,1978, WE PREPARED A NOTE ON THE FINANCIAL SITUATION OF THE INGA-SHABA PROJECT. THIS NOTE OUTLINED THE FINANCIAL PROBLEMS OF THE PROJECT AS THEY WERE IN APRIL, THAT IS, BEFORE THE SECOND WAR IN SHABA.

CURRENTLY, SINCE THE BASICS OF THE PROBLEM HAVE CHANGED, NEW ESTIMATES HAS TO BE MADE. CIS ESTIMATES THAT IT WILL COST APPROXIMATELY

129 MILLION DOLLARS TO COMPLETE THE PROJECT INSTEAD OF 82 MILLION PREDICTED LAST APRIL.

THIS AMOUNT IS BROKEN DOWN AS FOLLOWS:

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- 73,700,000 AS INITIALLY PREDICTED
- 30,000,000 ESTIMATED COST FOR ONE YEAR DELAY ON SCHEDULE
DRAWN UP IN APRIL
- 25,000,000 ESTIMATED COST FOR REPAIRS, REPLACEMENT OF LOST
OR/DAMAGED EQUIPMENT AND MATERIAL, INCLUDING
ADDITIONAL COMPENSATIONS WHICH MUST BE PAID.

BUT, ACCORDING TO THE CONSORTIUM, THE FUNDS CURRENTLY AT THEIR DISPOSAL AS OF JUNE 1,1978, ARE AS FOLLOWS:

- 13,854,000 US DOLLARS IN AVAILABLE FUNDS, MINUS
 - 5,834,000 US DOLLARS REPRESENTING UNPAID COMMITMENTS,
LEAVING A TOTAL AMOUNT OF
 - 8,020,000 US DOLLARS FOR CONTINUATION OF PROJECT ACTIVITIES.
- AS A RESULT OF ALL THIS, THE CIS CONSORTIUM PREPARED A PLAN OF ACTION WHICH INCLUDES THREE POSSIBLE ALTERNATIVES:

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ALTERNATIVE NO. 1
STOP ALL CONSTRUCTION WORK AND ENTER INTO CARETAKER STATUS FOR
MAINTENANCE OF EQUIPMENT ALREADY IN-COUNTRY.

ACCORDING TO THIS ALTERNATIVE, THE PROJECT WILL BE COMPLETED 2 1/2
YEARS AFTER DISBURSEMENT OF FUNDS.

ALTERNATIVE NO. 2
CONTINUE PROJECT ACTIVITIES AT THE CURRENT RHYTHM OR REDUCED
RHYTHM IN CERTAIN SELECTED AREAS UP TO NEX NOVEMBER WHEN CURRENT
FUNDS (8,000,000 US DOLLARS) WILL BE DEPLETED. THEN REDUCE ACTIVITIES
DOWN TO CARETAKER STATUS UNTIL JUNE 1979, WHEN LOAN AGREEMENTS WITH
EXIMBANK MAY PROBABLY BE PUT INTO PLACE.

WITH THIS HYPOTHESIS, PROJECT COULD BE COMPLETED AT THE END OF 1981.

ALTERNATIVE NO. 3
CONTINUE OPERATIONS THROUGHOUT ENTIRE PROJECT, ONLY IF THE
FOLLOWING CONDITIONS ARE MET:

1. PAYMENT OF 2,500,000 US DOLLARS, WHICH REPRESENTS
REMAINDER OF AMOUNT PROMISED BY THE GOVERNOR OF THE BOZ IN HIS LETTER
OF MARCH 3, 1978.

2. MONTHLY PAYMENT, STARTING NEXT SEPTEMBER, OF 1,000,000 US DOLLARS
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AS AN APPROPRIATION OF THE REPUBLIC OF ZAIRE UNTIL SUCH TIME AS
LONG-TERM CREDITS MAY BE DISBURSED BY EXPORT IMPORT BANK OF US,
APPROXIMATELY JUNE 1979 (PROBABLE AND ESTIMATED DATE).

3. SETTING UP OF LETTERS OF CREDIT WHICH WILL ENABLE REPLACEMENT
OF ALL EQUIPMENT LOST OR DAMAGED IN KOLWEZI AND MUSONOIE. THE
ESTIMATED COST OF LETTERS OF CREDIT COMES TO 10,500,000 US DOLLARS.

4. ALLOCATION OF 1,000,000 ZAIRES PER MONTH TO CIS IN 1978
FOR LOCAL EXPENSES. THIS AMOUNT SHOULD BE 1,500,000 ZAIRES PER MONTH
IN 1979.

5. ADEQUATE FUEL AND OTHER SUPPLIES ARE MADE AVAILABLE IN REQUIRED
TIME.
IF ALL THESE CONDITIONS ARE MET, THE PROJECT COULD BE COMPLETED TOWARDS
THE END OF 1980.

CONSTRUCTEURS INGA-SHABA AND SNEL BOTH RECOMMEND ALTERNATIVE NO. 3 WHICH IS BY FAR MORE ADVANTAGEOUS THAN ALTERNATIVES 1 AND 2, FOR TWO MAIN REASONS:

- THE PROJECT WOULD BE COMPLETED APPROXIMATELY ONE YEAR SOONER THAN ACCORDING TO ALTERNATIVE NO. 2, WHICH WOULD SAVE A LOT OF MONEY IN TERMS OF PRICE REVISION AND INFLATION.
- ELECTRICAL POWER WOULD BE AVAILABLE IN SHABA ONE YEAR SOONER, WHICH MEANS SNEL COULD AVOID IMPORTING ENERGY FROM ZAMBIA TO MAKE UP FOR THE POWER DEFICIT WHICH WILL OCCUR IN THAT REGION IN 1979 IF THE PZ PROGRAM OF GECAMINES IS CARRIED OUT. UNDER THESE CONDITIONS

, AND IN THE EVENT OF A GENERATOR FAILURE AT NSEKE, IT WILL COST ZAIRE APPROXIMATELY 14,000 US DOLLARS PER DAY IN 1979 AND APPROXIMATELY 27,000 US DOLLARS PER DAY IN 1980 (ESTIMATED RATE) TO IMPORT THEIR ELECTRICITY. THIS AMOUNT WILL BE EVEN GREATER IN 1981. THEREFORE, IT IS IMPORTANT THAT THE EXECUTIVE COUNCIL GIVE US LIMITED OFFICIAL USE

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PRECISE INSTRUCTIONS ON THE ALTERNATIVE WE ARE TO CHOOSE. ANY HESITATION NOW WILL CAUSE IRREPLACEABLE LOSS OF TIME COSTING MILLIONS OF DOLLARS. SIGNED ANDRE JACOBS, PRESIDENT DELEGATE GENERAL UNQUOTE

8. CONTENTS OF ADAMS-JABOS LETTER FOLLOW:

QUOTE

JULY 17, 1978

DEAR SIR:

WE REFER TO OUR LETTER K/SNEL - 1231, DATED 20 JUNE 1978. IN THIS LETTER, WE REVIEWED THE EVENTS WHICH HAVE OCCURRED SINCE THE ONSET

OF THE PROBLEMS IN THE SHABA REGION ON 13 MAY 1978, AND WE PROPOSED CERTAIN ALTERNATE PLANS FOR CONSTRUCTION.

PLAN 3 WAS RECOMMENDED AS THE MOST ADVANTAGEOUS TO SNEL AS THE ONE WHICH WOULD INSURE COMPLETION OF THE PROJECT IN THE SHORTEST TIME WITH LEAST COST.

THE PROBLEMS OF FUNDING FOR THE INGA-SHABA PROJECT HAVE BEEN RECOGNIZED PREVIOUSLY, AND AN APPLICATION FOR ADDITIONAL LOANS IN THE AMOUNT OF 73,700,000 US DOLLARS WAS UNDER CONSIDERATION BY THE EXIM BANK.

WE ARE ADVISED THAT THE BANK HAS CEASED TO PROCESS THE APPLICATION AND HAS ADDRESSED A LETTER TO THE REPUBLIC, THROUGH THE ZAIRIAN AMBASSADOR IN WASHINGTON, D.C. REQUESTING INFORMATION AS TO THE INTENTIONS OF THE REPUBLIC IN CONNECTION WITH THE PROJECT AND ASKING FOR INFORMATION ON ADDITIONAL FUNDING REQUIRED BEYOND THE 73,700,000 US DOLLARS NOW REQUESTED.

THE IMPLEMENTATION OF PLAN 3 REQUIRED THAT BRIDGING FINANCE BE MADE AVAILABLE, COMMENCING WITH PAYMENT OF 2,500,000 US DOLLARS, WHICH HAD PREVIOUSLY BEEN PROMISED TO BE PAID IN MAY.

IN VIEW OF EXIM BANK ACTION, THE ABSENCE OF BRIDGING FINANCE AND ANY COMMUNICATION ON THIS MATTER, IT APPEARS TO US THAT ADDITIONAL

FUNDING IS NOT LIKELY TO BE AVAILABLE WITHIN A TIME FRAME WHICH WILL
PERMIT FOLLOWING THE RECOMMENDED PLAN 3.
IN THESE CIRCUMSTANCES, AND IN THE ABSENCE OF ANY REPLY
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TO OUR LETTER, CIS IS PROCEEDING TO IMPLEMENT ALTERNATE PLAN 2.
TO THE EXTENT POSSIBLE UNDER THE LIMITATIONS IMPOSED BY THE AVAILABLE
US DOLLAR FUNDING, CIS INTENDS TO CONTINUE CONSTRUCTION TO A
LOGICAL STOPPING POINT IN EACH OF SEVERAL AREAS, AND THEN TO TAKE STEPS

TO SCALE DOWN THE CONSTRUCTION OPERATIONS TO THE CARE AND
MAINTENANCE OF THE HIGH TECHNOLOGY ITEMS OF PERMANENT PLANT.

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R 271250Z JUL 78
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WE EXPECT THAT WE WILL BE ABLE TO:

1. CONTINUE LINE STRINGING INTO KANANGA SWITCH STATION.
2. CONTINUE CONSTRUCTION OF THE SPECIAL FOUNDATIONS AND TOWER
ERECTION EAST TO THE LUBILASH RIVER.
3. ERECT THE SIDING AND ROOF OF ONE VALVE HALL AT KOLWEZI
TO ENABLE IT TO BE USED AS A STORAGE WAREHOUSE FOR PERMANENT PLANT.

4. UNDERTAKE SOME LIMITED CONSTRUCTION AT INGA
CONVERTER SITE INTO SEPTEMBER.

5. COMPLETE THE OIL FILLING AND PRESERVATION OF THE TRANS-
FORMERS, REACTORS AND SIMILAR ITEMS AT INGA SITE.

6. GATHER UP AND STORE IN CENTRAL LOCATIONS THE MATERIALS PRE-
SENTLY AT KIKWIT AND KALONDA.

IN THIS MANNER, CONSTRUCTION WORK ON THE PROJECT WILL BE REDUCED IN
AN ORDERLY MANNER, WITH APPROXIMATELY 2,000,000 US DOLLARS REMAINING
IN NOVEMBER, WHICH WILL, WE ESTIMATE, BE SUFFICIENT TO PROVIDE FOR
CARE AND SECURITY OF THE SPECIAL EQUIPMENT THROUGH 1979, AND
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PROVIDE THE ABILITY TO RESTART CONSTRUCTION OPERATIONS AT SUCH TIME AS

FUNDS ARE MADE AVAILABLE.

IN THE IMPLEMENTATION OF THIS PROGRAM, IT IS FORESEEN THAT THE LABOR
FORCE, BOTH EXPATRIATE AND ZAIRIAN, WILL BE REDUCED SUBSTANTIALY.
THIS ACTION, AND THE ACTION TO RECRUIT THE PERSONNEL LATER, WILL RESULT
IN CONSIDERABLE EXTRA COST TO THE PROJECT.

THE PRESENT ZAIRIAN LABOR FORCE IS APPROXIMATELY 1,350 PERSONS.
WE FORESEE THAT THIS FORCE WILL BE REDUCED TO ABOUT 250 PERSONS,
A REDUCTION OF 1,100 PERSONS. TERMINATION PAY WILL BE ABOUT 400,000
ZAIRE.

THE PRESENT EXPATRIATE LABOR FORCE IS 243 PERSONS. THIS WILL BE
REDUCED TO LESS THAN 50 PERSONS, A REDUCTION OF
APPROXIMATELY 200. THE COST OF DEMOBILIZING AND REMOBILIZING LATER
IS ESTIMATED TO BE 800,000 US DOLLARS.

ALL OF THESE COSTS ARE ADDITIONAL COSTS WHICH HAVE TO BE BORNE
BY THE PROJECT.

WE ARE READY TO DISCUSS THESE PROBLEMS WITH YOU AT ANY TIME AT
YOUR CONVENIENCE. SIGNED NEVILLE G. ADAMS

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